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CANADIAN EGG MARKETING AGENCY'S PRICING FORMULA

National
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PUBLIC HEARINGS ON CANADIAN EGG MARKETING AGENCY'S PRICING FORMULA

SUMMARY OF FINDINGS AND RECOMMENDATIONS BY THE NATIONAL FARM PRODUCTS MARKETING COUNCIL

July 23, 1976

MEMBERS OF THE TRIBUNAL

Paul Babey - Chairman
M.E. (Jerry) Pringle - Vice Chairman
A. Lévesque - Member

SUMMARY AND RECOMMENDATIONS

At the request of the Consumers' Association of Canada, the National Farm Products Marketing Council decided under Section 8 (2) of the Farm Products Marketing Agencies Act to hold public hearings on the cost of production formula developed by P.S. Ross and Partners, and the method by which the Canadian Egg Marketing Agency uses these figures to determine and apply a national price for eggs in Canada. The public hearings commenced on February 26, at the National Conference Center in Ottawa and was continued in Regina on March 2 and concluded in New Brunswick on March 9, 1976. A total number of thirty two submissions were made.

The findings and recommendations of the Tribunal are briefly summarized hereunder as follows:

1. Feed Conversion Ratio

There was sufficient evidence to indicate that the feed conversion ratio in the P.S. Ross formula should be further studied. Accordingly, a study is being undertaken by Council, the results of which will be communicated to CEMA as soon as available.

2. Rate of Lay

Based on evidence, the rate of lay, as suggested in the formula, will be retained at 19 dozen per hen per year. CEMA will be requested to review this on a yearly basis and adjustments thereto will accordingly be made as necessary.

3. Imputed Labour Costs

The Tribunal accepts the P.S. Ross labour figure of 4 hours per thousand birds per week. However, Council is being requested to undertake further investigation of this problem and the reports thereof will be communicated to the Agency.

4. Wage Rates

The Tribunal accepts the wage rate as stipulated in the P.S. Ross report. However, Council has undertaken an examination of the wage rate mix and the results of this study will be submitted to the Agency.

5. Transportation Costs

The Tribunal accepts the transportation costs as determined by CEMA. However, it recommends that the Agency review this matter on a quarterly basis.

6. Capital Valuation

The Tribunal has concluded that without more data and supporting evidence, the existing figures being used in the four week moving average cannot accommodate a reduction of 2¢ per dozen as proposed by the Consumers' Association of Canada. It recommends therefore that the capital valuation factor be recalculated from time to time as cost index changes.

7. Conversion to Grade A Large

The Tribunal recommends that no change be made in the figure of 5.45¢ being used at the present time. The Tribunal therefore recommends that CEMA maintain a four week moving average assessment so that if further adjustment is warranted, the fluctuations will take place on a quarterly basis.

8. Return on Capital

The Tribunal concluded that the amount actually used in the formula is considered low and recommends that further study be made on this matter and adequate recommendations made.

9. Return on Risk

The Tribunal considers that the P.S. Ross report is incomplete as far as the risk factor is concerned. It is of the opinion that more data from actual poultry farm performance is needed before a recommendation could be made. Council is pursuing the possibility of establishing a national insurance scheme to cover the risk incurred by poultry farmers.

10. Levy Structure

No change in the levy structure is recommended.

11. Central Pricing

The Tribunal recommends that the present method of central pricing be maintained and that further study be undertaken in order to improve the system.

The findings of the Tribunal, as set out above, are based on evidence submitted in the briefs at the hearing. However, this was supplemented by data available from other sources not specifically cited in the evidence. The Tribunal does not accept the proposition advanced by the Consumers' Association of Canada that the cost of egg production, and consequently the price of eggs, should be rolled back. The judgement of the Tribunal is therefore that the price of eggs so derived should be sustained.

Background to Public Hearings

The Consumers' Association of Canada (CAC) on December 17, 1975, presented to the National Farm Products Marketing Council an appeal regarding the cost of production formula that was developed by P.S. Ross and Partners, and the method by which the Canadian Egg Marketing Agency (CEMA) uses these figures to determine and apply a national price for eggs in Canada. In view of the public interest in the operations of the Canadian Egg Marketing Agency, and the importance to consumers of the product that the Agency controls, the Association requested the National Farm Products Marketing Council (NFPMC) to convene a public hearing under Section 8 (2) or 6 (1) (b) or both of the Farm Products Marketing Agencies Act in order to consider the Association's appeal as set out above.

In addition thereto, the Association indicated that in the light of the current consideration being given by the original signatories of the National Egg Marketing Plan to a new agreement to govern the operations of CEMA, and of the ability of the National Farm Products Marketing Council, under its guidelines, to solicit public opinion to assist it in evaluating or making recommendations for improvement in the performance of the Agency under its supervision, the Council consider the Association's appeal at this public hearing in the widest possible terms so that in addition to the appeal of the cost of production figures, consideration be given to the operations of the Agency and its performance vis-à-vis both producers and consumers of the product.

To this end, the CAC requested that the National Farm Products Marketing Council consider at the public hearing its submissions directed towards general and specific areas. The general areas in which the Consumers' Association of Canada had proposed to present argument on its proposed appeal of the P.S. Ross and Partners' cost of production figures were as follows:

1. Utilizing the cost of production figures and CEMA's ability to set quotas, the Association wished to query whether CEMA can achieve the objectives prescribed for it in Section 22 of the Farm Products Marketing Agencies Act, that is,
   a) promote a strong, efficient and competitive production and marketing industry,
   b) have due regard for the interests of producers and consumers of the regulated product,

or the additional objectives contained in the Supplementary Agreement of April, 1975:

i) achieve reasonable prices to producer and consumer and elimination of wide regional variations,

ii) achieve free interprovincial movement of products,

iii) establish and maintain a financial structure which is sound.

2. The Association requested an examination of the mechanism whereby the conversion factor, administration and cost of removal levies are developed and applied, whether it can guarantee that these are equitable, and whether they are subject to public review and revision. It further requested an examination of measures necessary to ensure accountability. It also queried the necessity for provincial adjustments to a weighted national average of provincial prices.

3. What constitutes a "reasonable rate of return", how and by whom is it established? The Association questioned its inclusion in a cost of production figure.

4. The Association submitted that additional mechanisms can be employed to ensure that production levels are based on sufficiently precise information, that they will not fall short of domestic requirements, or that controls are sufficiently precise to ensure that production will not exceed the target.

5. The Association also questioned the ability of the application of an "average" to produce adequate returns to individual producers, and whether sufficient benefits accrue to the producer to offset the "social cost" of the plan, the increased consumer price, and the resultant decline in sales.

6. The Association indicated that it will present submissions on whether barriers to interprovincial trade exist, and the effect that the use of an "average price" has had on interprovincial movements.

The National Farm Products Marketing Council decided to treat this request as a complaint under paragraph 7 (1) (f) of the Farm Products Marketing Agencies Act, and also that it would be appropriate, in the public interest, to hold a public hearing pursuant to subsection 8 (2) of the Act. This decision was also supported by a public statement made in a press conference on July 22, 1975, by the Honourable Eugene Whelan, Minister of Agriculture, which, in part, read as follows:

> "The Farm Products Marketing Council has officially accepted the report, and has advised the Canadian Egg Marketing Agency accordingly. The price farmers receive for their eggs will be set by this formula as soon as possible. The Executive of CEMA will apply the cost figures. If either producers or consumers dispute the cost and reasonable return figures applied to this formula, the Farm Products Marketing Council is prepared to provide an avenue of appeal to resolve these grievances. Public hearings can be held to air these disputes as provided under Section 8 of the Farm Products Marketing Agencies Act."

There appeared to be some confusion in the minds of a number of interested parties as to the scope of the hearing. In order to clarify this, the following explanation by the Chairman of the Tribunal was given at the commencement of each session of the hearing: "The Farm Products Marketing Agencies Act and its Comprehensive Egg Marketing Plans, together with the Supplemental Agreements have been proclaimed by the Governor in Council. These are laws of the land. Neither the Farm Products Marketing Council nor this hearing is the appropriate forum to air complaints regarding government statutes and federal provincial agreements.

In October 1974, the Government of Canada established a Special Parliamentary Committee and provided them with terms of reference as follows:

> "Ordered -- That a Special Committee of 14 members be appointed to inquire into and report upon, with its recommendations, if any,
> (a) the operations of the Canadian Egg Marketing Agency, and
> (b) the performance of several authorities having responsibilities with respect to those operations".

The report of the Special Committee of the House of Commons was made public in late December, 1974 and the recommendations, for the most part, were generally accepted by the signatories to the comprehensive egg plan, and included in a supplemental agreement. In the course of developing the revised agreement, the Committee representing the signatories received and are considering a number of submissions, one of which was provided by the Consultative Committee to CEMA. Representatives from the trade and consumers are on the Committee.

Therefore, the Council addressed itself only to the specific complaint submitted by the Consumers' Association of Canada. It was agreed that briefs and oral submissions, if any, will be allowed as submitted.

However, the Tribunal of Council did not consider irrelevant statements which did not relate specifically to the complaint regarding the P.S. Ross and Partners report and application of cost figures to the formula when preparing the report on findings resulting from the hearings.

The rules of proceedings that have been developed by the Council in close consultation with the Applicant and the Respondent are as follows: The order of appearances will be: first, the Applicant, followed by the Respondent, followed by other registered interested parties in the order and at the locations as indicated on the list. Non-registered interested parties, by legal counsel, were permitted if the allotted time permitted. Following that, the Applicant had an opportunity for a final summary, followed by the Respondent and finally the Applicant in reply. All the witnesses testified under oath or affirmation."

The public hearing began on February 26 at the National Conference Center in Ottawa, was continued at the Regina Inn, Regina, Saskatchewan on March 2, and concluded at the Lord Beaverbrook Hotel in New Brunswick on March 9, 1976. A total number of thirty-two submissions were received at the hearing. The submissions are presented in Part II to this publication and the proceedings of the hearing and other relevant documents are presented in Part III. The salient features of submissions together with the findings and recommendations of the National Farm Products Marketing Council are presented below:

SUMMARY OF THE TRIBUNAL'S FINDINGS AND RECOMMENDATIONS

In those instances, where more than one witness made a similar point in the evidence, only one illustration of the same point will be cited in the summary of the findings in order to avoid repetition.

Evidence re Feed Conversion Ratio (F.C.R.)

Feed costs account for approximately 50% of the total production costs and consequently, the feed conversion ratio has a large impact on the costs of producing eggs. The CAC indicated that producers have little difficulty in achieving four pounds per dozen eggs produced. It based its estimate of the F.C.R. on commencement of lay at 24 weeks, while CEMA based it on lay period commencing at 20 weeks and extending to 75 weeks. A witness for CAC agreed in testimony that based on 20 weeks, the feed conversion should be 4.12. However, evidence from Agriculture Canada (Exhibit 1 - re Central Egg Production Test) indicated a range for feed conversion from 3.85 - 4.74 pounds, or an average of 4.3 pounds.

CEMA's testimony indicated the variables, which affect feed conversion ratios as follows:

- extent and nature of automation
- flock management practices
- breed selection
- feed quality (protein level, energy level, etc.)

The cost of production formula uses a national average based on actual ratios of producers surveyed or 4.46. Provincial averages range from 4.2 to 4.8, whereas individual results range from 3.6 to 5.6. The average ratio assumes that all feed was consumed by a flock over its lay period, and that the average protein level of feed was approximately 17%. It was noted that the formula will be re-studied every three years to ascertain the impact of technological or other changes which may affect the ratio. However, CEMA's recent survey of producers yielded a feed conversion ratio of 4.52.

Ontario Egg Board Survey 1973 indicated a weighted average feed conversion of 4.51. Evidence, based on a United States Department of Agriculture (USDA) random sample test of a variation in strain of birds produced, suggested F.C.R. ranging from 3.6 to 5.65, or an average of 4.54. USDA abandoned feed conversion figures, and at present use feed per pound of eggs produced. Moreover, some

conversions indicated a ratio of 3.6 to 5.65, or an average of 4.54. On one particular farm, F.C.R. is 3.86 measured at a time when the flocks reached 50% production. In addition, Agriculture Canada strain Kentville had a conversion of 4.01, 4.56 and other entries showed 4.39, 4.47, 4.14, 5.06 and 4.21 for an average of 4.45. It was indicated that the P.S. Ross formula erred in deciding to use the slightly below-average figure.

Lindblad, Appendix D, "Technical Information on Hisex White Final Product" F.C.R. ranged from 4.18 - 4.22, not under Ontario weather conditions. North Carolina random sample test average F.C.R. at 4.33 for a lay period of 350 days.

Evidence was also submitted that the feed conversion ratio of 4.27 pounds, and relatively lower feed costs in the corn belt in 1975 have kept the costs below the formula, but other costs such as depreciation are higher. A representative of the Christian Farmers Federation endorsed the calculation of feed costs, but indicated that a region has been equated with a province and that there is a greater difference in feed costs between South-West and Eastern Ontario than exist between the Maritime Provinces.

Testimony was given that the production costs for Quebec were established by a Technical Committee set up by the Department of Agriculture in November 1974. Other agencies had also prepared production costs prior to 1974 i.e. The Economic Reference Manual prepared jointly by Quebec Department of Agriculture, the University of Laval, Farm Credit Corporation and the Farm Credit Bureau. The feed conversion ratio retained was 4.2 although producers supported a ratio of 4.5. It was also submitted that it would be irregular to apply a lower conversion rate because the type of feed used did not result in higher productivity and that F.C.R. should be studied in relation to the quality of the feed used.

Testimony was given by a representative of the Canadian Poultry and Egg Processors Council that last year for the peak period of production the conversion rate was approximately 3.8. The average F.C.R. in his experience runs slightly over 4. Testimony was given by the representative of the Alberta Egg and Fowl Marketing Board that a ratio of 4.2 pounds per dozen would require a production rate of 21 dozen per layer per year as an average, and therefore, would require well over 21 dozen from half the producers to sustain such an average.

Evidence was also given to the effect that there is no more justification for using above-average factors as suggested by CAC than there would be for CEMA to use the highest average cost producer to set prices on items such as feed conversion ratio, rate of lay and hours of labour.

Testimony given indicated that feed conversion ratio was 5.49 but half of the birds were in moult. The actual feed conversion ratio is 4.5. It was also submitted that for flock number three, length of lay - December, 1974/ January, 1976, the feed conversion was 4.02.

The Lambton County Egg Producers' submission indicated that nine producers had achieved a feed efficiency ranging from 3.88 to 4.27 or an average of 4.11 pounds per dozen using corn rations. It was also indicated that the Government of New Brunswick appointed a study group to investigate agricultural resources, in New Brunswick. An Egg Enterprise Budget Analysis for a 10,000 layer enterprise was drawn up by economists who assumed a rate of 20 dozen per year and feed conversion ratio of 4.2. Despite these favourable assumptions, the total enterprise was in a deficit position.

A representative of P.S. Ross and Partners testified that a simple average was used for establishing F.C.R. Since the Ottawa hearing, as mentioned in Fredericton, their staff recalculated feed conversion and the simple average is 4.46 and the weighted average is 4.45.

<u>Observations and Findings</u>

The feed conversion ratio is subject to many variables some of which include management of flocks, quality of feed, type of laying birds, severe weather conditions, and the variation within a flock depending on the time the measurement is taken. During the testimony, it was indicated that the average feed conversion ratio obtained in Canada was slightly higher than the 4.46 used in the formula. The CDA random test over a three-year period indicated a feed efficiency of 3.83 pounds per dozen, but these experiments are conducted under more controlled conditions than commercial laying operations.

The submissions at the hearing indicated that some producers were achieving higher levels of efficiency than the P.S. Ross formula, others were unable to achieve that level of efficiency, while most argued that the formula was fixed at the proper level. However, the feed conversion

ratio should be at a level which will ensure that egg production will remain efficient and competitive and should reflect the experience of most of the efficient operations.

Recommendations

There was sufficient evidence to indicate that the feed conversion ratio should be adjusted to an appropriate level. The basis for this adjustment should be a study involving a larger sample. Hence, a study with a larger sample should be undertaken to determine an appropriate feed conversion ratio. Furthermore, the feed conversion ratio so determined should be reviewed annually, and re-studied every second year initially instead of every third year. The study should be based on a larger sample, and the feed conversion ratio should be calculated on a weighted average rather than a simple average. To this end, a study is being initiated by the National Farm Products Marketing Council, and the findings of this study will be communicated to CEMA as soon as they are available.

Evidence re Rate of Lay

The Consumers' Association of Canada requested that the rate of lay be increased to at least twenty dozen eggs per bird per year. This estimate was suggested for regulated flocks only, and was based on the understanding that efficient producers achieve rates of lay that were even higher, reaching twenty one and twenty two dozen eggs per bird per year. Furthermore, the submission suggested a shorter interval between studies for adjustment.

In their report, P.S. Ross and Partners stated that annual egg production per bird tended to vary from producer to producer, with no significant differences being evident on a regional basis. Eliminating the extremes, the average annual production per bird was determined at 19.08. As the model stipulated averages, and accepting a recent agreement signed between the provinces, P.S. Ross recommended an average annual production figure of nineteen dozen per bird to be used in all provinces, and that this figure should be reviewed through a study every three years, and held constant during the interval between these studies.

The different submissions at the hearing generally accepted that the nineteen dozen per year per bird placed was appropriate as an average.

For example, the representative of Archibald Farms Limited indicated that at one particular stage of the flock size, that is between twenty three and twenty six weeks of age, he uses twenty dozen eggs per bird to calculate his pullet cost at that moment. From this point on and for fifty two weeks at the most, they will lay nineteen dozen eggs per bird started as stated in his submission.

The technical information on Hisex White breed carried in North Carolina, U.S.A., schedule D of Lindblad's submission, report a rate over twenty two dozen eggs per hen per year on a hen-day production basis. The same flock calculated on a hen-housed production basis is reported at 20.5 dozen eggs per hen per year. This is viewed as the technical promotion of a particular breed.

In 1970, Judge Ross' study in Ontario reported 17.8 dozen eggs per hen per year, but noted that flock mortality was relatively high at that time. In 1973, the study in Ontario again as submitted by the Ontario Egg Producers Marketing Board reported 18.5. They agree that the nineteen dozen per bird per year reflects the average annual rate of lay today.

Different rates of lay were given in evidence. For example, in one case, 18.40 dozen eggs per hen per year; whereas in another case, it was indicated that the rate of lay varied between 19.34 and 18.75 dozen eggs per hen per year. Moreover, a study by the Quebec Department of Agriculture in 1974 indicated a rate of lay of twenty three (23) dozen per bird during a period of fifteen months. This, as reported in joint submission of the Union des Producteurs agricoles (UPA) and the Fédération des producteurs d'oeufs de consommation du Québec (FEDCO), represented a rate of lay of 18.4 dozen eggs per bird per year. The previous rate calculated in September 1973 was 16.1. For 1975, the technical committee recommended nineteen dozen eggs per bird per year, the same as P.S. Ross.

A recent study performed by the economists of the Ministry of Agriculture and Food in Ontario states that "eggs laid per hen per cycle, weighted by the number of hens initially housed amount to 19.74 dozen plus or minus .30. Eggs laid per hen per year weighted by the number of hens initially housed amount to 18.99 dozen plus or minus .23."

Recommendation

Based on the evidence received, the Tribunal has to uphold the rate of lay as suggested by P.S. Ross in the formula as 19 dozen per hen per year which is total production allowing for down-time, mortality, etc. However, where

P.S. Ross suggest a review every three years with the same rate being used in the interval, the Tribunal recommends a review by CEMA on a yearly basis, and adjustments made to the rate of lay according to the findings of the review.

Evidence re Imputed Labour Costs

a) Labour Requirements
b) Wage Rates

a) With respect to labour requirements, the Consumers' Association of Canada, in their submission, stated that three hours of labour per week for 1,000 birds is more than sufficient. It stated in order to justify their submission, that the P.S. Ross survey was described as "not entirely reliable". It also pointed out that the British Columbia Marketing Board uses a factor of 3.37 hours per 1,000 birds, whereas in some producers' reports in Ontario the Consumers' Association of Canada emphatically stated that three hours per 1,000 birds per week is enough.

The P.S. Ross report admits that the determination of the model hours per week per 1,000 birds is somewhat difficult. From their survey of egg producers within 10,000 to 50,000 bird flock size, labour hours per 1,000 birds per week varied very widely. For purposes of the model, the level has been averaged at four hours and this value has been used for all provinces even though they felt it was not entirely reliable. The true regional difference in cost is reflected in the different provincial labour rates. P.S. Ross recommend this factor should be re-studied every three years while being kept constant in the interim. This factor should represent the total labour requirement on the farm, whether paid or unpaid.

A telex from the British Columbia Egg Board was filed indicating that the hours of work used in their cost of production formula were four hours. The Ontario Egg Marketing Board stated that four hours per 1,000 birds per week is no more than adequate to cover their producers' labour requirements. In most cases, large numbers of producers spend considerably more time than four hours per thousand birds.

Nine Lambton County egg producers reported that the labour requirement ranged from 4.3 to 6 hours making an average of 5.01 hours of labour per 1,000 birds per week. This was the time spent for the laying operation alone. It must be noted that other tasks besides gathering eggs should

be considered as well such as:

- cleaning snow so feed and egg trucks can get in;
- thawing frozen water pipes;
- repairing cages;
- removing manure;
- depopulating and repopulating between flocks, etc.

The Quebec study which was part of the submission presented by FEDCO and UPA indicates 4.07 hours per 1,000 birds per week.

The Christian Farmers Federation's submission agreed that four hours per 1,000 birds per week was acceptable, but that smaller flocks have higher figures. A previous study by Professor Forbes dated November 3, 1974, states four hours per 1,000 birds per week as labour requirement.

Recommendation of Tribunal

Based on submissions presented, the Tribunal accepts the P.S. Ross figure of four hours per thousand birds per week. The Tribunal also recognizes the need for a study on this problem and the Council is being requested to undertake further investigation on the problem of labour requirements on egg farms.

b) In regard to wage rates, the Consumers' Association of Canada's submission suggests that the required skill accepted for the egg industry is reflected in the farm wage rates. The inclusion of skilled manufacturing labour rates contributes to inflation of production costs. The P.S. Ross model assumes a mix of skilled and unskilled labour in equal proportions and prices these at the most recent available rates for each province. The two rates are averaged to yield the average provincial rates per hour. P.S. Ross recommend that the provincial labour rate be updated quarterly.

The Ontario Egg Producers Marketing Board's submission stated that they were extremely concerned that as labour becomes more organized and militant, it will be necessary to pay overtime and extra pay for weekend work. Thus, using the average farm wage in the formula as suggested by the Consumers' Association of Canada, will be considerably out of line with the actual condition found in the poultry industry.

It was noted that the Saskatchewan Commercial Egg Producers Marketing Board, using a study of their producers where labour rate for general labour was $4.80 an hour and managing labour was $6.25 an hour, indicated a rate of 11.05¢ per dozen, as compared to 4.75¢ per dozen used in the formula. FEDCO and UPA in their submission stated that P.S. Ross provide for 3.84¢ per dozen for Quebec, but the Department of Agriculture study is 5.14¢ per dozen which is insufficient. The Lambton County Egg Producers' submission stated that the labour cost per dozen is in excess of 6.75¢ and 4.5¢ per dozen is allowed in the formula.

The Nova Scotia Egg and Pullet Marketing Board's submission stated that the average labour rate should be calculated as 1/3 the provincial farm labour rate and 2/3 the provincial industrial rate as determined by Statistics Canada, added together with the total regular hours to be paid for, established at 5.27 hours per thousand birds per week thus including weekends and overtime labour.

It may be pointed out that following all the submissions, the representative of the Consumers' Association of Canada agreed to increase the total labour requirements from 3 to 3.5 hours per thousand birds per week, and also conceded that the wage mix between the farm rate and industrial rate is appropriate.

Tribunal Recommendation

This is an area where the formula definitely seems unacceptable to the Consumers' Association of Canada because it is too high and not acceptable to most producers and producer groups because it is too low. Only a few accepted the hourly rates as appropriate. The Tribunal accepts P.S. Ross' conclusion that the average arrived at was the most appropriate average that could be accepted. More study is required on the matter, and the Tribunal recommends that the National Farm Products Marketing Council undertake an examination of the wage rate mix.

Evidence re Transportation Costs

The feed prices calculated in the formula are based on prices reported by the Canadian Livestock Feed Board wholesale F.O.B. mill door which does not include delivery charges from the mill door to the production unit. The P.S. Ross formula set the transportation charges at $2.00 per ton, but CEMA increased these charges from $5.00 to $10.00 per ton depending upon the province in question. These increased charges were made by CEMA

following a survey made of shipping charges from mill door to farm gate. The survey showed that depending upon the particular province, the charges ranged from $5.00 to $10.00. Moreover, the Canadian Egg Marketing Agency testified that the cost of transportation was up-graded on a quarterly basis, by conducting telephone surveys of feed manufacturers in all provinces.

The Consumers' Association of Canada testified that since actual feed costs per ton in most provinces more closely approximate the published Canadian Livestock Feed Board prices, the transportation costs are unwarranted. It was admitted in testimony that the witness for the Consumers' Association of Canada did not realize that feed prices were quoted as F.O.B. mill door, and agreed to change the submission if the majority of producers paid the transportation charge.

Evidence was given that delivery charges increased from $4.80 per ton to $6.00 per ton for a 9 mile haul. United Cooperatives of Ontario at Guelph delivery charge is $5.50 per ton for a minimum of 10 ton bulk feed.

Testimony was also given on evidence taken from the Master Feed price listings exhibit indicating "Wholesale Dealer Price F.O.B. St. Boniface Mill" door. Transportation charges per ton, from the mill's door to the producer's farm, are based on two factors:

a) minimum size load and
b) distance covered in miles.

Minimum Size Load	Distance Covered in Miles	Minimum Charge per Ton
6 tons	1 to 3 miles	$6.00
12 tons	1 to 3 miles	$4.50
10 tons	1 to 50 miles	$5.50
10 tons	51 to 80 miles	$6.50
10 tons	81 to 100 miles	$7.50
10 tons	101 to 125 miles	$8.50
10 tons	126 miles and over	$9.50

There was testimony that the Canadian Livestock Feed Board prices are quoted in dollars per ton bulk F.O.B. mill door, and that CAC by not accepting their costs have made an improper calculation of the delivery cost to producers. In this connection, a question was posed as to where transportation costs are not allowed on feed, who pays for it? The rate paid for 50 miles transportation is $5.80 per ton from the Federated Cooperative Feed Mill in Weyburn, Saskatchewan.

On a related subject, it was also submitted in evidence that feed prices are always higher in Newfoundland by as much as $25.00 per ton as compared to elsewhere in Canada. The feed freight assistance program covers about 1,200 pounds out of every ton, and there is no subsidy applicable on the balance. Prices of feed last fall went up in Newfoundland even though they decreased in most of the Country. The cost of moving feed from Nova Scotia to Western Newfoundland cost $15.00 per ton but to Central Newfoundland it is $20.00 per ton.

The representative from the New Brunswick Egg Marketing Board testified that the feed mills in Fredericton, Sussex and Moncton are the main suppliers for producers. The transportation cost varies from $3.50 to $9.00 depending on volume, distance from the mill and fluctuating petroleum costs but the average is closer to $5.00 per ton.

The representative of P.S. Ross and Partners testified that the recommendation with respect to transportation of feed was $2.00 per ton for the producers surveyed. The witness for the Canadian Egg Marketing Agency submitted that the Agency surveyed 52 feed mills relating to the average transportation charge applied.

The P.S. Ross and Partners study recommended that a $2.00 per ton transportation cost be applied which was based on the experience of the majority of the producers surveyed. The Agency has departed from this recommendation and applied an increased cost figure based on their study of feed mills. The attached information requested from the Canadian Feed Manufacturers' Association indicates that transportation costs are either included in the price of feed on a delivered basis or the feed is priced F.O.B. mill door.

Testimony at the hearing indicated that the witness for CAC was unaware that prices listed by the Canadian Livestock Feed Board were published F.O.B. mill door, while producer testimony tended to support that present costs were justifiable, with the exception of the Atlantic Provinces. The cost of transportation of feed is dependent on the competition prevalent in the area, the proximity of feed compounders in relation to the production facilities, and whether grain or corn is produced and processed on the farm. An Eastern Ontario plant uses rates as follows: up to 20 miles, $4.50 per ton; 20-30 miles, $5.50 per ton; 30-40 miles, $6.50 per ton; over 40 miles, $6.50 per ton plus 82¢ per mile each way. There is an additional charge of $5.00 per stop to elevate feed into the feed bins.

Recommendation

Although the Agency departed from the recommendation of the P.S. Ross study, the average price of transportation (CEMA) appears to be justifiable. The transportation costs can vary 10 to 15% up or down depending on the location of the production unit in relation to the source of feed. The attached letter (Schedule A) from the Canadian Feed Manufacturers' Association confirms that feeds are generally marketed F.O.B. mill door. The Tribunal recommends that the Agency review feed transportation costs on a quarterly basis, and that Council undertake a study to establish feed costs at the farm gate.

Evidence re Capital Valuation

The CAC brief based their complaint on the assumption that the pricing formula overstated the cost by 2 cents per dozen, with a statement that CEMA "had already, at that time, instituted mandatory cutbacks in flock sizes of between 20 to 40% depending on the province in question". The brief stated that P.S. Ross and Partners conducted their sampling after the aforementioned cutback.

There is some question about the assumption made by the CAC in that the global quota was established by a formula based on the historical production over a previous five year average. Moreover, the quota allotted to provinces was agreed upon and accepted as the basis for a supply management program. Apparently, the CAC did not consider that production was not fairly related to demand, or disappearance during the previous five year average.

Furthermore, many producers in a number of provinces over-estimated their fair share of production facilities, somewhat in excess of reasonable table egg demand, whether based historically or on projection. The number of birds which could be accommodated in the facilities was described as "basic quota", a term which cannot be found in the original Federal/Provincial Agreement or comprehensive plan or, in fact, in subsequent agreements. There were no cutbacks as such prior to the P.S. Ross study.

Should egg producers receive compensation for deliberately expanding their facilities without giving due care and attention to a reasonable share of the market? Historical price data shows that if all the floor space was used as contemplated by some producer quota speculators, the surplus to table egg demand would defy disappearance capabilities. The excess costs required to channel surplus eggs into processing outlets would be such as to require a

sizable reduction in the utilization in floor space and negate any advantage which could have been foreseen when averaging capital valuation.

The P.S. Ross report states that "Annual Depreciation costs are determined by applying appropriate depreciation rates to the original dollar investment in buildings and equipment. For ease of calculating in the model, this investment has been expressed on a per bird basis, so that the resultant depreciation costs per bird can be divided by annual production per bird in dozens to yield depreciation cost per dozen".

Therefore, the capital cost per bird appears to relate to the cost of buildings and equipment which would accommodate a given number of birds and not on the actual number of birds which was actually housed in the premises at the time of calculation. The Tribunal has been unable to locate any evidence in any brief to indicate otherwise. There is no supporting evidence in the CAC brief.

The brief submitted by the representative of Archibald Farms of Nova Scotia, indicated that depreciation is closely related to capital valuation. The brief suggested that the figures used by P.S. Ross may be slightly low. More specific data provided by CAC would have been very helpful as the Archibald references are difficult to dispute.

In the brief from the Alberta Egg and Fowl Marketing Board, it was noted that capital investment "could vary from $2.00 per bird to $10.00 without any real extravagances on the part of the producer, rather a matter of a few years difference in when operations began and the extent of automation".

Finally, in reference to the specifics outlined on Pages 11, 12 and 13 of the July 1975 P.S. Ross report, it is clear that much time and effort was used when determining average capital valuation. There is no need to repeat the rather comprehensive steps taken with reference to historical precedents. There will probably always be room for some debate as to whether the cost factor in relation to capital valuation is high or low. The CAC submission was not supported by the evidence presented.

Recommendations

P.S. Ross recommended annual updating and indexing in relation to capital valuation and related factors. The inflationary spiral will no doubt become a more influential

factor as older building and equipment replacements increase the required capital over and above reserve for depreciation. Obsolescence has been cited as a factor which has played an important role in demand for capital. In fact, the real cost resulting from equipment replacement which has become obsolete should be given serious consideration during annual review.

The investment value of land should be reviewed and adjusted every three years and held constant during the interval. The investment value for working capital, however, should be updated annually, using a national average of the most recent pullet and feed prices.

The Tribunal has arrived at the conclusion that without more data and supporting evidence, the existing figures being used in the four week moving average cannot accommodate a reduction of 2¢ per dozen as proposed by CAC. It is recommended that the capital valuation factor be recalculated from time to time as cost index changes. The Tribunal was unable to accept the proposition that the factor is high to the total of 2 cents per dozen.

Evidence re Conversion to Grade A Large

The CAC brief observed that a conversion figure to Grade A Large was derived by weighting the May 29th, 1975 conversion factors. Although it was later shown that the figure arrived at was based on a week instead of a day, there does not appear to be a valid reason for failure to include a much longer period of time over which to weight the conversion factors.

Agriculture Canada's Poultry Market Report is issued weekly so that actual figures are available on a weekly moving average. There is no doubt that quoted prices of mediums and smalls are an integral part of producer revenue as no calculation for nest run is available as a producer price before grading. The extent of movement of nest run eggs from producer at a firm price is insufficient to establish a national average price for Canada.

CEMA has since kept a moving average monthly report and, in fact, figures are available. The attached table (number 3) indicates the fluctuations which are caused by effect of variations in volumes of production of the various sizes. There is no set pattern as placement dates apparently vary from year to year, thus altering periods related to production of various sizes. The charts show a tendency towards high conversion factors during the second and third quarter and low in the first and last quarter.

The formula took effect in July 1975 and the
erage for the period July to December 1975 showed an
erage factor of 6.68¢ per dozen. The P.S. Ross report
es 5.45¢.

CAC presented a graph covering a nine year period.
e chart does not indicate producer prices during the
riod and thus has somewhat dubious value. The period
cludes years when producer prices were disastrous so that
attempt to arrive at a factor in the form of cents per
zen could create a distortion. The following chart is
bmitted in support:

YEARLY CANADIAN WEIGHTED PRICE TO PRODUCERS
FOR ALL GRADES IN CENTS PER DOZEN

63 - 33.6¢	1966 - 39.4¢	1969 - 37.7¢
64 - 24.5¢	1967 - 28.4¢	1970 - 29.6¢
65 - 31.4¢	1968 - 31.8¢	1971 - 25.4¢

urce - Agriculture Canada.

It is interesting to note that the master chart
owed that Manitoba weighted average price for all eggs
oduced in 1971 was 18.6¢. Given the "less than total
st of production" weighted average price of eggs as shown
the above schedule, it does not appear practical to use
ose years to compare with figures more representative of
e "total cost formula" being used to determine weighted
erage price in 1976. The Canadian weighted average price
producers in 1975 was 58.0¢ per dozen.

The CAC nine year graph relates to years, when
oducer prices were controlled to large extent by the
ice egg processors were willing to pay for eggs in excess
the table market. Therefore, it is somewhat surprising
at the average during this period showed an annual conver-
on ratio of 5.11¢ per dozen.

Actual figures to calculate the conversion factor
grade A are printed weekly in the Agriculture Canada
ultry Market Report. The factor formula as related to
oducer price is applied by using a 4 week moving average.
e Tribunal does not suggest that a four week average should
used each time a review is undertaken. However, CEMA
ould be required to justify the amount as being a reasonable
erage when pricing formula information flow is assessed.
would be improper to avoid price decrease or price increase
establishing average periods unfavourable to stability.

Recommendation

The conversion to Grade A Large factor has not yet been applied to formula pricing for a full period of one year. Supply management has gone through a difficult period since the inception of CEMA and has brought supply into reasonable balance with demand for only about nine months. It is, therefore, difficult to accept historical data as absolute when establishing conversion to Grade A Large factor. However, evidence appears to be in support of the figure as established by P.S. Ross. No change is recommended in the figure 5.45¢ at the present time.

The Tribunal further recommends that CEMA maintain a four week moving average assessment and if adjustment is warranted the fluctuations to take place on a quarterly basis.

Evidence re Return on Capital (R.O.C.)

Although it is recognized that return on capital is an essential component in the pricing equation of any product, it is not generally accepted that R.O.C. is a legitimate cost factor. The R.O.C. is more a measure of the success of an operation and relates to components within the basic margin between total cost and selling price. Nevertheless, factors which influence return on capital must be considered as a vital part of the formula pricing process.

The CAC brief did not dispute the P.S. Ross analysis of the R.O.C. which would indicate they were in agreement with the determination. However, a number of other briefs did take exception to the total return which should be considered adequate for a reasonably efficient egg producing operation.

P.S. Ross states that "traditionally, the total rate of return which a business seeks from an enterprise can be thought of as containing two components:

(a) return on capital employed
(b) return on risk taken."

The briefs do not appear to differ with the Ross statement that "The view generally accepted is that the initial level of return to which the investor is entitled is that which he would earn on any safe investment, of which the enterprise under consideration is but one alternative. This initial level is often called the opportunity cost of capital and typically represents the minimum level of return which is acceptable".

Regardless of the good intentions of those who apply the essential weights to the formula, the R.O.C. depends on the accuracy of all other figures applied together with the fortunes of successful operation controlled by the risk factor and good management.

P.S. Ross elected to give priority to assessing the risk factor and compensate the egg producers accordingly. Having made a determination on risk, the balance of the return is a function of the capital employed and, of course, the opportunity rate to be established.

The points made by briefs representing producer groups will now be examined:

The representative of one producer group, the Ontario Federation of Agriculture, suggested that the return on capital employed is perfectly sound in theory, but the fair level is difficult to determine. He noted that the first difficulty lies in determining the value of capital employed and that the CEMA cost model is based on historical costs of plant currently in use, i.e. the same as the base for calculating the depreciation schedules, above. This has the advantage that it can usually be determined in a verifiable way. He agrees that counting all assets at replacement value would exaggerate the cost. However, the rationale for this category is opportunity cost. The true opportunity is for investing the amount of money currently represented by equity in the existing plant. Therefore, this witness suggested that the most appropriate measure of capital invested is the current sale value of existing plant, since this sale value, while the most appropriate amount, is more difficult to determine. He believes that valuations by professional appraisers experienced in farm real estate, together with farmers' own estimates and checks on egg operations recently sold would overcome this difficulty satisfactorily. Certainly, in recent years, many five-year-old buildings and equipment items would resell for more than original value.

This witness also suggested that a second difficulty in determining return on capital employed is setting the portion of total investment that is counted as operators' equity and on which they are to be granted a return. He pointed out that the Ross report recommended assuming 50% equity, as this reflected the situation of the producers in their survey. He suggested that this is certainly not too high, as the best estimate of the ratio of farm debt in Canada is about 20% of farm investment.

This representative of the Ontario Federation of Agriculture also pointed out that a related matter is the determination of the interest charges on the 50% of investment assumed to be borrowed. He noted that this item is conceptually separate for it is a cash expenditure rather than a return to operators' capital. However, practically speaking, the method used to determine the amount of these two items is similar. He also suggested that the rate of return for both categories is set on somewhat arbitrary (though entirely reasonable) bases, and with only one percentage point separating them. It was suggested that an attempt be made to determine actual debt servicing charges per dozen for producers in the survey; failing which, return to all capital might best be charged at one rate and the item of interest expenditure be eliminated.

The Tribunal felt that these points are well taken but appear to relate more to methodology than over all assessment. It might well be that future reviews could give consideration to the recommendations of the representative of the Ontario Federation of Agriculture.

Evidence was presented that the P.S. Ross formula recommended that the rate of return be set at the prime rate plus 1%, that being the approximate return available from provincial government bonds and other equally secure investments. It was submitted in evidence that it is ludicrous to suggest that the egg production industry is a "secure investment", and that the figure of 2.45 cents per dozen return represents 46.55 cents per hen which, according to a realistic investment of $14.65 per hen, basic replacement value plus pullet cost is only 3.18%. The evidence suggested that the return is unacceptable in most enterprises.

On this problem, the submission from the Alberta Egg and Fowl Marketing Board, indicated that this involves the amount of the total investment per bird of $6.896. Furthermore, it suggests that a $10.88 figure is quite possible and this would result in an approximate 1¢ per dozen increase in cost; and that the return on capital employed by the producer may be criticised as a farm gate cost but it certainly must be considered. It pointed out that the producer who invests large sums of his own capital should be getting more than just buying a job. It noted that when the capital required is borrowed, no one questions the claim of its cost to the producer.

Recommendation

The Tribunal concluded that when studying the P.S. Ross report in relation to return on capital employed and relating to the various suggestions in the briefs, it appears evident that a general consensus as to rationale is apparent, but that the amount of 2.58 cents per dozen actually used in the formula is considered low. This would mean an increase in the component cost aggregate and they recommend that the Agency Review Officer of the National Farm Products Marketing Council make further study in this regard.

Evidence re Return on Risk

Again quoting from the P.S. Ross report: "The most common risk which an enterprise must face is the risk of the marketplace, where competition from either producers of substitute products may be present in terms of product quality, style, price, availability or related marketplace considerations. With respect to the egg production business, it is our opinion that marketplace risk is not a factor for which a producer is entitled to receive an additional return.

On the assumption that a producer's egg deliveries remain within his assigned production of marketing quota, as established by the national and provincial marketing agencies, the supply management system guarantees him payment for his production and he is, therefore, essentially free from the marketplace risks which the enterprise typically faces. Accordingly, no return for marketplace risk has been incorporated in the model".

P.S. Ross did state that the producer was exposed to risk as a result of the possibility of the loss of the flock through disease or other calamity during its laying period. The CAC questioned a number of witnesses in an apparent attempt to discover the extent of loss through total loss of the flock and the evidence clearly indicated that risk of loss of entire flock is indeed minimal. There are always a few calamities such as fire, but insurance is available to compensate for such losses.

Unfortunately, the risk of financial loss resulting from partial loss of a flock or a number of other factors were ignored. Conscientious management practices cannot prevent many unplanned elements beyond the control of management, as explained in a number of briefs. Therefore, total disaster causing loss of the entire flock takes second place to partial loss within the scope of the risk factor.

Here are some references to risk factor from excerpts taken from briefs:

> "The formula allows only for complete flock destruction with a probability rate of 3% worked out to $.0032 per dozen. The risks involved in operating a poultry farm, from my point of view, go far beyond this. As an example, mortality records from seven recent laying flocks indicate mortality ranging from .85% to 2.21% per month. In calculating the pullet replacement cost, the formula uses 1% per month as the rule. I contend that the risks of disease, equipment failure, miscalculations made by hired labour, and many other unforeseen factors can cause a higher mortality rate and lower productivity rate than those used in the formula. Egg producers should not have to absorb all losses. Therefore, I feel that a higher return for risk is warranted in calculating the cost of production."

In this connection, the representative of the Nova Scotia Egg Board pointed out that Nova Scotia egg producers are very concerned about the calculation of return on risk. They felt that it is assumed in the cost of production model that the reasonable return to be received by the producer consists of two components, viz:

(a) a return on ½ the total investment of prime rate plus one percentage point;
(b) a return based on the expected cost of flock destruction which is a risk taken by the egg producer.

It was in respect of the second component which the witness feels is deficient, since the only risk acknowledged is that of flock destruction. He suggested that there are many other risks faced by the egg producer over which he has little control.

He pointed out that in particular, the producer faces risk of loss due to the effect of several diseases on three factors which affect his return:

(a) Mortality - direct immediate loss of productive layers.
(b) Productivity - immediate and continuing decrease in productivity.
(c) Efficiency - effect on the ability of the layer to convert feed into eggs.

He felt that this combined effect of these three factors can easily push an otherwise efficient producer into a loss position; and that with prices determined through the cost of production formula, the only way the producer may recoup his loss is through an increased return on risk.

Another producer indicated that in his opinion, based on his experience, the return for risk is not adequately covered by the P.S. Ross model. He further noted that risks of weather influenced losses of production, chronic and/or acute disease outbreaks due to improper vaccination procedures beyond the control of the egg producer who purchases his pullets, variation in feed quality and uniformity, and other factors influencing production, are not adequately accounted for by the figure of $.0032 per dozen.

Recommendation

It is, therefore, the considered opinion of the Tribunal that the P.S. Ross report is incomplete as far as the risk factor is concerned. More data from actual poultry farm performance is needed. Interruptions in lay, even temporarily can upset the entire laying cycle and cause distortions in "down-time" replacement programs and gross returns, regardless of the competency of the producer. Until such time as considerably more data is available, we cannot recommend a change in the factor of $.0032 per dozen. However, it does appear to substantiate a conservative approach on the part of P.S. Ross.

Evidence re Levy Structure

The CAC brief properly states that the P.S. Ross report includes a 5¢ per dozen producer levy. The levy is composed of a levy of 2½¢ for administration, promotion, research and market development for CEMA and provincial boards, and a levy of 2.5¢ per dozen for subsidization of eggs into the processed egg market.

At this point the statements do not appear to coincide completely with the information supplied by CEMA. Apparently the CAC failed to state that only 1¢ per dozen is used by CEMA for administration and 1½¢ is retained by the provincial boards. The other 2.5¢ per dozen in the formula is used to subsidize the first 25,000 boxes of eggs into the processing industry to provide egg products such as egg powder and melange. The price paid by processors for shell eggs is well below cost of production and at the time the 2.5¢ per dozen was included in the cost factor formula the number of eggs considered to be required for manufacturing egg products for domestic demand was stated

to be 25,000 boxes. This subsidy enables processors to compete with imports and reduce cost of manufactured food products. The savings are alleged to be passed on to the consumers in the form of less cost food products so that consumers ultimately reap the benefit when they purchase bakery and other products.

The removals have exceeded 25,000 boxes on the average since 1973 and under the formula producers pay the shortfall for processing eggs above the deemed domestic market.

Processors now claim that the domestic requirements are closer to 40,000 boxes weekly. Therefore, some adjustment upwards in the processing levy as applied to the formula might be justified to enable consumers to enjoy the benefit of cheaper manufactured food.

CEMA testified that administration costs have not exceeded 1¢ per dozen and the promotional costs have been limited to ¼¢ per dozen. The CAC brief suggested that it is good business practice to limit administration costs to about 1% of sales. Unfortunately, nothing was introduced into the evidence to support this statement other than the apparent viewpoint of the witnesses. Statements from a number of industrial leaders would have been helpful. On enquiry the Tribunal learned that administration costs can vary from less than 1% to a higher figure depending on the nature of the business and the stage in administration development. Companies who have been operating for a considerable length of time usually are able to show much less cost for administration than those who are within the formative period of less than five years. Entirely new enterprises, on the other hand, must suffer an abnormally high administration cost during the early stages.

It is suggested that the National Farm Products Marketing Council conduct a survey of secondary agricultural industries, manufacturing industries, service industries, etc., and report. CEMA concedes that more time is required to refine monitoring and enforcement systems before a reduction for administration costs can be expected.

On the other hand, the future administration costs required to operate CEMA will no doubt be under constant review by the directors of CEMA with a view to affecting savings wherever possible and thus reduce the price of eggs accordingly.

The suggestion that the minimum levy charged as a part of the administration cost in the formula be 1¾¢ per dozen is somewhat unrealistic and could indicate that the CAC should be made aware of all the ramifications involved in administering a new system of agricultural marketing designed for greater stability in the market-place.

The Tribunal recognizes that adequate levies are essential to finance the Canadian Egg Marketing Agency on a pay as you go basis within the system as proclaimed by the Governor in Council, within the terms of the Farm Products Marketing Agencies Act.

Levies as imposed by CEMA are included in the list of items required to be pre-audited by the National Farm Products Marketing Council.

Council's Agency Review Officer maintains constant vigilance with regard to administration levies and surplus removal price adjustment assessment fund and submits reports to Council and the Executive Committee for further action.

Recommendation

Fluctuations in levies will take place as required. A reduction of total levies to 1¾¢ per dozen, as recommended by the CAC, is not considered possible or desirable under present pricing provisions. Until such time as CEMA can effect savings in both administration and surplus removal costs, no change in the levy structure is recommended.

The savings of 3¼¢ per dozen to consumers as suggested by the CAC can only be considered as a calculated figure inconsistent with realistic operational costs and reasonable application for surplus to table egg removal requirements.

Traditionally the breakers influenced the price of table eggs when the cost of production formula was not in use. Therefore "breakers" used practically all undergrades available. Presently all eggs surplus to table egg requirements are potentially available to breakers regardless of grade and in fact only a small percentage of surplus table eggs purchased by CEMA are sold into the table egg market when vendors do not serve all areas of need. Therefore the breaker industry must be considered as an integral part of the total egg industry. Producers therefore can justifiably pay the short fall from producer levies over and above the amount required by breakers to serve the domestic demand for egg products.

Evidence re Central Pricing

Contrary to the statement made by CAC on Page 17 of their brief which states "...Egg movement only occurs between the central provinces of Manitoba, Ontario and Quebec.", there is interprovincial movement of shell eggs in every province of Canada. It is agreed that some province's volume is low in comparison to their provincial total production of shell eggs.

It is estimated that approximately 18.42% of the eggs or approximately 80,000 to 90,000 boxes or 53 to 60 carload of eggs are moving between provinces weekly. Canada markets between 280 to 290 carloads per week. These are the known reported carload lot or LCL movement as reported to CDA by registered station operators in Canada.

It is noted that the witnesses for CAC expressed agreement with the Agency's application of the Ross formula in respect to pricing on two major base points: setting Ontario price at the national weighted average and using a base point pricing to price all other provinces. Central pricing is a key factor in order to make CEMA operate efficiently and effectively. Central pricing reduced some of the inequalities that existed in the past between provinces, especially when the intervention price had a 28¢ spread between Manitoba and Newfoundland or 13¢ spread between Manitoba and Alberta (second week of February 1975).

Currently, the known method of central pricing is the fairest one to apply on all eggs for all provinces and all producers, excepting for Manitoba, which depends on moving approximately 50 percent of its weekly production to other provinces.

If we accept the suggestion that the lowest cost of production province should be the barometer for the rest of Canada, it is certainly unfair to the other nine provinces, because you will have only one or two provinces which will have their cost of production and all other provinces will be producing at a loss. Furthermore, CAC states: "It is our submission that pricing Ontario eggs on a national weighted average negates the concept of cost of production since if a province gets its cost of production in fact it is a coincidence, and for example, Mr. Chairman, Ontario producers are receiving a price at the moment significantly above their actual cost of production while we have heard evidence that Manitoba producers are receiving less than their cost of production.

Concerning transportation charges, it is our submission that with the exception of the Provinces of Manitoba, Ontario and Quebec, the movement among other provinces is negligible."

If we were to price the eggs in accordance with CAC's statement on Page 16 of CAC's brief, we would lose our Canadian industry to other countries as Canadian producers would not be able to absorb losses every year or every second year. If we are using Manitoba as the base price province, and adding the producer return, this method would increase the price of eggs to consumers by at least one cent. Example:

Table 1

Cost of Production Summary	Manitoba Total Farm Gate Cost (63.73) plus Producer Return (2.58) = 66.31				
April 12, 1976	Manitoba Price	Plus Freight and Handling Charges From Manitoba	Manitoba Base and Eggs Moving From Manitoba	P.S. Ross Formula C.O.P. April 12/76	Change
B.C.	66	10¢	76	75	+ 1
Alta	66	8¢	74	73	+ 1
Sask.	66	7¢	73	72	+ 1
Man.	66	-	66	65	+ 1
Ont.	66	4¢	70	69	+ 1
Que.	66	7¢	73	72	+ 1
N.B.	66	11¢	77	76	+ 1
N.S.	66	13¢	79	73	+ 6
P.E.I.	66	15¢	81	75	+ 6
Nfld	66	23¢	89	81	+ 8
Canada	66	-			

The price of eggs would be increased by 6 to 8 cents per dozen for consumers in N.S., P.E.I. and Newfoundland.

Concerning central pricing, the Minister of Agriculture has stated that central pricing must be national is scope. Furthermore, central pricing was supported by the government signatories of the Plan. In order to make it national the only present known method is to use the provincial total farm gate cost and weight it in accordance with the provincial market share. This way, each province contributes its share of the national average in accordance with its provincial production. We know of no fairer method.

Presently, one of the reasons why CEMA's weekly surplus removal is increasing is that the spread between provinces is not big enough. There is not enough incentive for the stations to move shell eggs to other provinces. They are acting as marginal entrepreneurs and in their estimation they do not want to take further risk when CEMA is there to bail them out. Rather than take less money, the grading stations offer those eggs to CEMA, and let CEMA dispose of the surpluses to provinces in need.

CEMA's legal counsel stated "Mr. Chairman, on the central pricing, the only dispute which I gather between CAC and CEMA is on the basic point and my friends from CAC have admitted in testimony that they are not against central pricing and that they thought the solution lay in having more basic points. When I asked them which basic points they could not answer what basic points would effectively insure free interprovincial movement of goods and that is the rationale behind the central pricing mechanism which CEMA has adopted. In this connection, I only need refer you again to the uncontradicted evidence of Mr. Wiens in Regina where he indicated to me on a question that if CEMA based its prices strictly on cost of production the product would not move and CEMA cannot be in a position of ever shorting the market because if you think that consumer irritation were felt, I assure that if ever CEMA shorted the market you would have such an outcry in this country that we would never hear the end of it. This is the rationale behind central pricing."

Another point of concern is that if we are going to have a market system to work efficiently, we have to allow the eggs to move freely between provinces. We have to have the incentive for it. Presently, the Manitoba price is 1¢ per dozen too low in comparison to other provinces. This generally happens to the province that is required to move a large percentage of its production as stated earlier.

If we have the same price in every province, the middleman will get the difference in price to move the eggs. The present established C.O.P. passed on to the producers the benefit that the middleman used to get. Whether we like it or not, ultimately the consumer will have to pay the transportation costs, whether charged by producers or by the middleman.

Recommendation

The present method of establishing the C.O.P. forces the inefficient producers to strive for efficiency or else look somewhere else for a better income.

If you have more than one central point other than what is at present, this will bring back the inequalities which existed in the past. On the basis of figures derived from various methodologies or the various possibilities of establishing a C.O.P. figure, such figure to be fair and equitable in every sense of the word to every producer in every province of Canada for every week of the year, is a utopia.

Tribunal realizes that it is not because one system of pricing is working effectively and efficiently in one area of the country that this means the same system will work similarly or as efficiently in other provinces or for all provinces in Canada.

Tribunal is fully aware that the present central pricing is not a "cure all or a be all or an end all", as the system of marketing eggs is not similar or identical in every province of Canada.

If there was only one way of marketing eggs in Canada, one would agree that one system would suffice for all provinces and then central pricing could become a "cure all, or a be all or an end all". But this is not the case. Each province has its own peculiarities of marketing eggs, i.e. white or brown, large or small, A's or undergrades, loose or in cartons, boxes or cases or wire baskets, carload lot or LCL, etc., etc...

Therefore, complexities in the marketing structure of eggs in Canada do exist. There are so many ways, methods and avenues by which and through which eggs can be marketed or traded in Canada. Example:

From: producer - egg station
- breaking plant
- wholesaler
- retailer
- consumer
- broker or exporter.

In order to have efficiency and effectiveness in a system, the system itself has to be kept simple and easy to apply and should be applied only to one basic point. The central pricing is more useful to all concerned in the simplest form as is devised by the P.S. Ross formula.

The Tribunal recommends that the present method remain as is presently in use with serious studies to be carried out by the Agency Review Officer of the NFPMC.

Table 2A: By using Manitoba base price but using Nova Scotia as transportation and handling costs for the Atlantic Provinces you obtain the following.

	Manitoba Price	Freight And Handling Charges From Manitoba	Manitoba Base Price Plus Transportation And Handling	C.O.P. April 19/76	Change Cents Per Dozen
B.C.	66	10	76	75	+ 1
Alta	66	8	74	73	+ 1
Sask.	66	7	73	72	+ 1
Man.	66	-	66	65	+ 1
Ont.	66	4	70	69	+ 1
Que.	66	7	73	72	+ 1
N.B.	66	11	77	76	+ 1
N.S.	66	8	74	73	+ 1
P.E.I.	66	2	68	75	- 7
Nfld	66	8	74	81	- 7

By using this method 8 provinces where the consumers would be paying one cent more and producers of P.E.I. and Newfoundland would lose 7 cents per dozen.

Table 2B: By using Manitoba base price for all provinces from Quebec west, and using the N.S. price (69.81 + 2.58 = 72.39 per dozen or 72) for the Atlantic Provinces plus the transportation costs and handling charges from N.S. you would get the following.

B.C.	66	10	76	75	+ 1
Alta	66	8	74	73	+ 1
Sask.	66	7	73	72	+ 1
Man.	66	-	66	65	+ 1
Ont.	66	4	70	69	+ 1
Que.	66	7	73	72	+ 1
N.B.	72*	11	83	76	+ 7
N.S.	72*	8	80	73	+ 7
P.E.I.	72*	2	74	75	- 1
Nfld	72*	8	80	81	- 1

* N.S. as a base price.

(Six provinces where the consumers would be paying one cent more per dozen, consumers in N.B. and N.S. would pay seven cents more whilst producers in P.E.I. and Newfoundland would lose 1 cent per dozen).

Recommendations of the Tribunal

Feed Conversion Ratio

There was sufficient evidence to indicate that the F.C.R. in the P.S. Ross formula should be adjusted based on the findings of the study undertaken by the Council. Furthermore, the feed conversion ratio should be reviewed annually and re-studied every second year initially instead of every third year. The study should be based on a larger sample and feed conversion ratio should be calculated on a weighted average rather than a simple average. A study is being initiated by the National Farm Products Marketing Council and the recommendations of this study will be communicated to CEMA as soon as they are available.

Rate of Lay

Based on the evidence received, the Tribunal has to uphold the rate of lay as suggested by P.S. Ross in the formula as 19 dozen per hen per year which is total production allowing for down-time, mortality, etc. However, where P.S. Ross suggest a review every three years with the same rate being used in the interval, the Tribunal recommends a review by CEMA on a yearly basis and adjustments made to the rate of lay according to the findings of the review.

Imputed Labour Costs

Based on submissions presented, the Tribunal accepts the P.S. Ross figure of four hours per thousand birds per week. The Tribunal also recognizes the need for a study and the Council is being requested to undertake further investigation on the problem of labour requirements on egg farms.

Wage Rates

This is an area where the formula definitely seems unacceptable to the Consumers' Association of Canada because it is too high and not acceptable to most producers and producer groups because it is too low. Only few exceptions accepted the hourly rates as appropriate.

The Tribunal accepts P.S. Ross conclusion that the average arrived at was the most appropriate average that could be accepted.

More study is required on the matter and the Tribunal recommends that the National Farm Products Marketing Council undertake an examination of the wage rate mix.

Supporting evidence for an increase versus the lack of supporting evidence for the decrease suggested by the Consumers' Association of Canada, lead the Tribunal to conclude that their submission is without merit.

Transportation Costs

Although the Agency departed from the recommendation of the P.S. Ross study, the average price of transportation (CEMA) appears to be justifiable. The transportation costs can vary 10 to 15% up or down depending on the location of the production unit in relation to the source of feed. The attached letter (Schedule A) from the Canadian Feed Manufacturers' Association confirms that feeds are generally marketed F.O.B. mill door. The Tribunal recommends that the Agency review feed transportation costs on a quarterly basis.

Capital Valuation

P.S. Ross recommended annual updating and indexing in relation to capital valuation and related factors. The inflationary spiral will no doubt become a more influential factor as older building and equipment replacements increase the required capital over and above reserve for depreciation. Obsolescence has been cited as a factor which has played an important role in demand for capital. In fact, the real cost resulting from equipment replacement, which has become obsolete, should be given serious consideration during annual review.

The investment value of land should be reviewed and adjusted every three years and held constant during the interval. The investment value for working capital, however, should be updated annually, using a national average of the most recent pullet and feed prices.

The Tribunal has arrived at the conclusion that without more data and supporting evidence, the existing figures being used in the four week moving average cannot accommodate a reduction of 2¢ per dozen as proposed by CAC. It is recommended that the capital valuation factor be recalculated from time to time as cost index changes. The Tribunal was unable to accept the proposition that the factor is high to the total of 2 cents per dozen cost factor.

Conversion to Grade A Large

The conversion to Grade A Large factor has not yet been applied to formula pricing for a full period of one year. Supply management has gone through a difficult

period since the inception of CEMA and has brought supply into reasonable balance with demand for only about nine months. It is, therefore, difficult to accept historical data as absolute when establishing conversion to Grade A Large factor. However, evidence appears to be in support of the figure as established by P.S. Ross. No change is recommended in the figure 5.45¢ at the present time.

The Tribunal further recommends that CEMA maintain a four week moving average assessment and if adjustment is warranted the fluctuations to take place on a quarterly basis.

Return on Capital

The Tribunal concluded that when studying the P.S. Ross report in relation to return on capital employed and relating to the various suggestions in the briefs, it appears evident that a general consensus as to rationale is apparent, but the amount actually used in the formula is considered low. This would mean an increase in the component cost aggregate and they recommend that Council's Agency Review Officer make further study in this regard.

Return on Risk

It is, therefore, the considered opinion of the Tribunal that the P.S. Ross report is incomplete as far as the risk factor is concerned. More data from actual poultry farm performance is needed. Interruptions in lay, even temporarily can upset the entire laying cycle and cause distortions in "down-time" replacement programs and gross returns, regardless of the competency of the producer. Until such time as considerably more data is available, we cannot recommend a change in the factor of $.0032 per dozen. However, it does appear to substantiate a conservative approach on the part of P.S. Ross.

Council is pursuing the possibility of establishing a national insurance scheme to cover the risk incurred by poultry producers.

Levy Structure

Therefore, fluctuations on levies will take place as required. A reduction of total levies to 1¾¢ per dozen, as recommended by the CAC, is not considered possible or desirable under present pricing provisions.

Until such time as CEMA can effect savings in both administration and surplus removal costs, no change in the levy structure is recommended.

The savings of 3¼¢ per dozen to consumers as suggested by the CAC can only be considered as a calculated figure inconsistent with realistic operational costs and reasonable application for surplus to table egg removal requirements.

Traditionally, the breakers influenced the price of table eggs when the cost of production formula was not in use. Therefore "breakers" used practically all undergrades available. Presently all eggs surplus to table egg requirements are potentially available to breakers regardless of grade and in fact only a small percentage of surplus table eggs purchased by CEMA are sold into the table egg market when vendors do not serve all areas of need. Therefore, the breaker industry must be considered as an integral part of the total egg industry. Producers therefore can justifiably pay the short fall from producer levies over and above the amount required by breakers to serve the domestic demand for egg products.

Central Pricing

The present method of establishing the C.O.P. forces the inefficient producers to strive for efficiency or else look somewhere else for a better income.

If you have more than one central point other than what is at present, this will bring back the inequalities which existed in the past. On the basis of figures derived from various methodologies or the various possibilities of establishing a C.O.P. figure, such figure to be fair and equitable in every sense of the word to every producer in every province of Canada for every week of the year, is a utopia.

Tribunal realizes that it is not because one system of pricing is workinq effectively and efficiently in one area of the country, that this means the same system will work similarly or as efficiently in other provinces or for all provinces in Canada.

Tribunal is fully aware that the present central pricing is not a "cure all or a be all or an end all", as the system of marketing eggs is not similar or identical in every province of Canada.

If there was only one way of marketing eggs in Canada one would agree that one system would suffice for all provinces and then central pricing could become a "cure all, or a be all or an end all". But this is not the case. Each province has its own peculiarities of marketing eggs, i.e. white or brown, large of small, A's or undergrades, loose or in cartons, boxes or cases, or wire baskets, carload lot or LCL, etc. etc...

Therefore, complexities in the marketing structure of eggs in Canada do exist. There are so many ways, methods and avenues by which and through which eggs can be marketed or traded in Canada. Example:

From: producer - egg station
- wholesaler
- retailer
- consumer
- broker or exporter.

In order to have efficiency and effectiveness in a system, the system itself has to be kept simple and easy to apply and should be applied only to one basic point. The central pricing is more useful to all concerned in the simplest form as is devised by the P.S. Ross formula.

It would be recommended that the present method remain as is presently in use with serious studies to be carried out.

Summary of Recommendations

The findings of the Tribunal, as set out above, are based on the evidence as submitted in the briefs at the hearings. The evidence was supplemented by data available from other sources not specifically cited in the evidence contained in the briefs.

Based on the evidence as well as available data, the Tribunal does not accept the proposition advanced by the Consumers' Association of Canada that the cost of egg production, based on the formula developed by P.S. Ross and Partners, and consequently the price of eggs, should be rolled back. The judgement of the Tribunal is, therefore, that the price of eggs so devised should be sustained.

The Tribunal recommends, however, that the cost of production formula should be reviewed following the availability of more precise information. The following components of the formula were neither dealt with adequately in the submission nor in data available from other sources:

(a) wage rate appropriate to egg producers;
(b) return on investment in capital;
(c) structure of the levy imposed on egg producers; and
(d) central pricing.

It is proposed, therefore, that the National Farm Products Marketing Council undertakes studies on the problem areas stipulated in (a), (b), (c) and (d) above. In addition, the Tribunal recommends that the Canadian Egg Marketing Agency should review that data on labour requirements per 1,000 layers every three (3) years in order to update this component of the formula.

The Tribunal recommends that the feed conversion ratio be reviewed annually and re-studied every second year instead of every third year. Furthermore, it recommends that the study should be based on a larger sample and that the feed conversion ratio should be calculated on a weighted average rather than a simple average. The Tribunal recommends that this study be undertaken by the National Farm Products Marketing Council.

The Tribunal also recommends that CEMA should review the feed transportation costs component of the formula on a quarterly basis so that it would more adequately reflect actual transportation costs. Moreover, the Tribunal also recommends that an effective insurance scheme should be devised and implemented to cushion producers against the unique nature of the risks involved in egg production.

With respect to the establishment of central pricing, it is recommended that, in cooperation with CEMA and the provinces, the National Farm Products Marketing Council focuses on the establishment of a more equitable basis for the central pricing of eggs in Canada.

The Tribunal wishes to place on record that the adoption of a cost of production formula as a basis for establishing the price of eggs in Canada is a pioneering effort. It is also to be noted that the record of other countries attempting to use such a procedure has not been all that impressive. Yet it is universally accepted that producers of commodities and services both within the agricultural industry as well as other sectors of the economy must recover their production costs if they are to remain in the business of supplying society with the commodities and services needed for this economic and social well-being.

Nevertheless, it is in full recognition of its responsibility to both producers and consumers that the National Farm Products Marketing Council decided to accede to the request of the Consumers' Association of Canada for a public hearing on the cost of production formula developed by P.S. Ross and Partners and the method by which the Canadian Egg Marketing Agency uses this formula in setting the price of eggs in Canada. The National Farm Products Marketing Council is very mindful of the cost to the taxpayers in Canada (producers and consumers) that were incurred in conducting these public hearings. In this regard, it would seem that other groups in society such as the Consumers' Association of Canada and its advisors, in this particular case, could have devoted more resources into documenting a more in-depth study in establishing a prima facie case before requesting a public hearing that was so costly to all concerned.

The National Farm Products Marketing Council wishes to express its thanks and appreciation to all those who took the time to prepare submissions, and made the effort to appear before the Tribunal of the Council to give their testimony on the difficult problem of the cost of egg production and egg pricing in Canada. To these persons and institutions, the National Farm Products Marketing Council is truly grateful. Council sincerely hopes that by this hearing, all concerned are better informed not only on the formula itself, but on the method of its application in establishing egg prices in Canada.

CONVERSION TO GRADE "A" LARGE - DIFFERENCE BETWEEN AVERAGE WEIGHTED PRICES TO PRODUCERS FOR GRADE "A" LARGE EGGS AND ALL GRADES - JANUARY/DECEMBER 1975.

TABLE NO. 3

SOURCE: "Poultry Market Report" (Canada Department of Agriculture)

Week Number	Week Ending	Grade "A" Large	All Grades	Difference
1	Jan. 4/75	66.5	62.1	4.40
2	11	65.5	61.3	4.20
3	18	60.2	56.4	3.80
4	25	59.3	55.8	3.50
5	Feb. 1/75	60.6	56.4	4.20
6	8	60.5	57.2	3.30
7	15	59.1	54.9	4.20
8	22	57.6	54.2	3.40
9	Mar. 1/75	56.2	53.4	2.80
10	8	58.3	54.8	3.50
11	15	58.6	54.7	3.90
12	22	60.4	56.1	4.30
13	29	60.6	56.2	4.40
14	Apr. 5	58.0	53.6	4.40
15	12	55.3	51.2	4.10
16	19	54.9	50.2	4.70
17	26	54.1	49.7	4.40
18	May 3/75	57.0	52.6	4.40
19	10	58.4	53.4	5.00
20	17	58.6	53.3	5.30
21	24	56.8	51.0	5.80
22	31	55.8	50.0	5.80
23	June 7/75	55.4	49.0	6.40
24	14	55.2	49.0	6.20
25	21	58.2	51.7	6.50
26	28	58.5	51.7	6.80
27	Jul. 5/75	58.8	51.4	7.40
28	12	62.7	55.0	7.70
29	19	62.6	54.9	7.70
30	26	66.5	58.2	8.30
31	Aug. 2/75	68.4	59.2	9.20
32	9	68.7	59.3	9.40
33	16	68.3	58.5	9.80
34	23	68.3	59.3	9.00
35	30	68.3	60.4	7.90
36	Sep. 6/75	69.8	62.0	7.80
37	13	69.8	62.2	7.60
38	20	69.8	62.5	7.30
39	27	70.6	63.6	7.00
40	Oct. 4/75	70.7	63.9	6.80
41	11	70.6	64.3	6.30
42	18	70.6	64.8	5.80
43	25	70.6	65.2	5.40
44	Nov. 1/75	70.6	65.2	5.40
45	8	70.5	65.3	5.20
46	15	70.6	66.0	4.60
47	22	71.0	66.1	4.90
48	29	71.0	66.1	4.90
49	Dec. 6/75	71.0	66.0	5.00
50	13	70.5	66.0	4.50
51	20	70.4	66.0	4.40
52	27	70.5	66.2	4.30

~~NOTES GIVEN TO MEMBERS~~ APRIL 1/76

SCHEDULE A

CFMA National Office

P.O Box 2080, Station "D", Ottawa, Ont., Canada, K1P 5W3

Canadian Feed Manufacturers' Association

Association Canadienne des Manufacturiers de Moulees

March 29, 1976

RECEIVED

N.F.P.M.C.

Mr. Paul Babey,
Chairman,
National Farm Products Marketing Council,
165 Sparks Street, 7th. Floor,
Ottawa, Ontario
K1P 5B9

Dear Paul,

You raised the question of delivery charges for feed from the feed mills to farmers. Today I checked with member firms across Canada and the results are:

British Columbia: In this province the common practice is to price feed on a delivered basis, but most feed mills indicate on their price list a discount for pickup from feed mills. The cost for delivery per 12 ton bulk lot is $5.00 per ton and $8.00 per ton for bagged feed.

Alberta: Bulk feed 10 ton lot 35 mile radius is $7.00 per ton with corresponding increases for further distances which reaches $22.00 per ton for 200 miles or more. Delivery costs are shown on the price list.

Saskatchewan: 10 ton lot bulk 10 mile radius is $5.00. Delivery cost shown on price list.

Manitoba: 10 ton lot bulk 10-35 mile radius is $6.00. Some companies include delivery cost in the price of feed for deliveries less than ten miles, distances further than 10 miles are priced separately and shown on the price list.

Ontario: 10 ton lot bulk 10 mile radius $5.00

Quebec: 10 ton lot bulk 10 mile radius $5.00

Atlantic: 10 ton lot bulk 10-20 mile radius $4.00

2...

The ~~above~~ prices . . average and .ay vary by 10% to 15% up or down, from location , location ir he province.

I trust this info ion will be of help to you, but should you require clarif. ion on any point please contact me.

Sincerely yours,

Curtis L. Friend, CAE
Executive Secretary

CLF/mcm